

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Alfrey, P.C.</i>			Date <i>John R. K.</i>	

**Ovid-Middlebury Emergency Services Authority
Ovid, Michigan**

FINANCIAL STATEMENTS

December 31, 2004

Ovid-Middlebury Emergency Services Authority

Ovid, Michigan

December 31, 2004

AUTHORITY BOARD MEMBERS

Mr. Jim McClelland	Chair
Mr. Anthony Sinicropi	Vice-Chair
Ms. Annette Devereaux	Treasurer
Ms. Diane Longoria	Secretary
Mr. Doug McAllister	Trustee
Mr. William Lasher	Trustee
Ms. Jeanne Ott	Trustee
Mr. Charles Simpson	Trustee

Ovid-Middlebury Emergency Services Authority

TABLE OF CONTENTS

December 31, 2004

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii-iv
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Fund Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	6
Notes to Financial Statements	7-12
REQUIRED SUPPLEMENTARY INFORMATION	
SPECIAL REVENUE FUND	
Budgetary Comparison Schedule	13

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the
Ovid-Middlebury Emergency Services Authority
Ovid, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ovid-Middlebury Emergency Services Authority as of and for the year ended December 31, 2004, which collective comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Ovid-Middlebury Emergency Services Authority as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Authority has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of January 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 22, 2005

Ovid-Middlebury Area Emergency Services Authority

Management's Discussion and Analysis

New Financial Reporting

Starting with fiscal year ended December 31, 2004, the Ovid-Middlebury Area Emergency Services Authority, (the "Authority") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the Authority's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Authority. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Authority's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Authority's financial health.

The discussion and analysis of financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Authority's financial statements.

Comparative analysis will be provided in future years, as it is not required in the first year of implementation of GASB #34.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2004:

- The assets of the Authority exceeded its liabilities at the close of the most recent year by \$555,067 (net assets).
- The Authority's total net assets increased by \$39,481, as the result of current year activity.
- The Operating Fund finished the 2004 year with an increase to fund balance of \$35,203. The ending fund balance for the 2004 year for the Operating Fund was \$193,064.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Ovid-Middlebury Area Emergency Services Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Ovid-Middlebury Area Emergency Services Authority in more detail than the government-wide financial statements by providing information about the Authority's most significant funds.

Ovid-Middlebury Area Emergency Services Authority

Management's Discussion and Analysis

The Authority as a Whole

The following table shows, in a condensed format, the net assets as of December 31, 2004. A comparative analysis of data will be presented in future years when the information is available.

Assets	
Current assets	\$ 450,813
Noncurrent assets	<u>479,739</u>
Total assets	930,552
Liabilities	
Current liabilities	278,976
Noncurrent liabilities	<u>96,509</u>
Total liabilities	<u>375,485</u>
Net Assets	
Invested in capital assets, net of related debt	362,003
Unrestricted	<u>193,064</u>
Total net assets	<u>\$ 555,067</u>

The Authority's total net assets were \$555,067 at December 31, 2004. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$193,064 at the end of the year. The net asset invested in capital assets were at \$362,003. The management's discussion and analysis will present a condensed comparative statement of net assets next year when we have two years of statements in the GASB Statement No. 34 format.

The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

Revenue	
Program revenue:	
Charges for services	\$ 111,717
Operating grants and contributions	33,950
Property Tax	230,920
General revenue:	
Interest revenue	1,613
Miscellaneous	<u>20,044</u>
Total revenue	398,244
Program Expenses	
Public safety	<u>358,763</u>
Change in Net Assets	<u>\$ 39,481</u>

Ovid-Middlebury Area Emergency Services Authority

Management's Discussion and Analysis

Governmental Activities

The Authority's governmental revenues totaled \$398,244 with the greatest revenue sources being property taxes and charges for services. Property tax collections and charges for services make up approximately 58 and 28 percent, respectively, of total governmental revenue.

The Authority incurred expenses of \$358,763 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the public safety function.

The Authority's Funds

The analysis of the Authority's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the individual funds, not the Ovid-Middlebury Area Emergency Services Authority as a whole. The Ovid-Middlebury Area Emergency Services Authority's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Authority's only major fund for the fiscal year ended December 31, 2004 was the Operating (Special Revenue) Fund.

The Operating Fund pays for all of the Authority's governmental services. The sole service provided during the fiscal year was emergency management, which incurred expenditures of approximately \$363,041 for the fiscal year.

General Fund Budgetary Highlights

Over the course of the fiscal year, the Authority Board made necessary budget adjustments to fund unanticipated expenditures during the year. Expenditure budget amendments were made to the salaries/fringe benefit line items to accommodate an increase in the number of runs. A budget amendment was also made to the contractual services line item due to the hiring of a consultant to review and advise on Authority Board's request regarding a new building and land purchase.

An amendment was made to the revenue budget for taxes once a more accurate picture of taxable values was received.

Capital Assets and Debt Administration

At the end of the fiscal year, the Authority had \$479,739 invested in emergency service vehicles and equipment (net of accumulated depreciation). In 2004 several pieces of emergency equipment were purchased for a total addition to capital assets of \$23,106.

The Authority issued no new debt during the year. At year-end the Authority had remaining debt outstanding on a capital lease which was dated in 2000. The balance, \$117,736, was the only long-term debt outstanding and it is due and payable through 2009. The 2005 principal payment of \$21,227 is considered a current liability in the audited financial statements and the remaining balance of \$96,509 is considered long-term.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Ovid-Middlebury Emergency Service Authority Treasurer at 517-834-5751.

BASIC FINANCIAL STATEMENTS

Ovid-Middlebury Emergency Services Authority

STATEMENT OF NET ASSETS

December 31, 2004

	<u>Governmental Activities</u>
ASSETS	
Current	
Cash	\$ 226,140
Accounts receivable	9,450
Taxes receivable	<u>215,223</u>
Total current assets	450,813
Noncurrent	
Capital assets, net of accumulated depreciation	<u>479,739</u>
TOTAL ASSETS	930,552
LIABILITIES	
Current	
Accounts payable	6,145
Accrued wages	12,571
Deferred revenue	239,033
Current portion of long-term debt	<u>21,227</u>
Total current liabilities	278,976
Noncurrent	
Noncurrent portion of long-term debt	<u>96,509</u>
TOTAL LIABILITIES	<u>375,485</u>
NET ASSETS	
Invested in capital assets, net of related debt	362,003
Unrestricted	<u>193,064</u>
TOTAL NET ASSETS	<u><u>\$ 555,067</u></u>

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Public safety	<u>\$ 358,763</u>	<u>\$ 111,717</u>	<u>\$ 33,950</u>	\$ (213,096)
General revenues:				
Property Taxes				230,920
Interest				1,613
Miscellaneous				<u>20,044</u>
Total general revenues				<u>252,577</u>
CHANGE IN NET ASSETS				39,481
Net assets, beginning of year				<u>515,586</u>
Net assets, end of year				<u>\$ 555,067</u>

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2004

	Special Revenue Fund
ASSETS	
Cash	\$ 226,140
Accounts receivable	9,450
Taxes receivable	<u>215,223</u>
TOTAL ASSETS	<u>\$ 450,813</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 6,145
Accrued wages	12,571
Deferred revenue	<u>239,033</u>
TOTAL LIABILITIES	257,749
FUND EQUITY	
Fund balances	
Unreserved - undesignated	<u>193,064</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 450,813</u>

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2004

Fund balances - governmental funds **\$ 193,064**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 735,855	
Accumulated depreciation is	<u>(256,116)</u>	
		479,739

Long-term liabilities, are not due and payable in the current period and therefore
are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Lease payable	<u>(117,736)</u>
---------------	------------------

Net assets of governmental activities **\$ 555,067**

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2004

	Special Revenue
REVENUES	
Intergovernmental	
Townships and Village	\$ 33,950
Taxes	230,920
Charges for services	111,717
Interest	1,613
Other	20,044
	<hr/>
TOTAL REVENUES	398,244
EXPENDITURES	
Current	
Salaries and wages	166,500
Fringe benefits	12,460
Continuing education	2,128
Contractual services	56,466
Supplies	11,574
Gas and oil	3,714
Telephone	2,949
Insurance	17,414
Repairs and maintenance	12,240
Uniforms	9,158
Other	14,588
Capital outlay	26,513
Debt service	27,337
	<hr/>
TOTAL EXPENDITURES	363,041
	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES	35,203
Fund balance, beginning of year	157,861
	<hr/>
Fund balance, end of year	\$ 193,064
	<hr/> <hr/>

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Net change in fund balance - governmental fund \$ 35,203

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	23,106
Depreciation expense		<u>(39,008)</u>

Excess of capital outlay (under) depreciation expense	(15,902)
---	----------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Capital lease principal retirement	<u>20,180</u>
------------------------------------	---------------

Change in net assets of governmental activities	<u><u>\$ 39,481</u></u>
--	-------------------------

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF EMERGENCY SERVICES AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ovid-Middlebury Emergency Services Authority was created on January 1, 2003 by a joint venture agreement between the Townships of Ovid and Middlebury and the Village of Ovid. Effective January 1, 2003 the Ovid-Middlebury Fire Board and the Ovid Area Ambulance Service transferred all their existing assets, liabilities, and remaining fund equity to the newly formed Ovid-Middlebury Emergency Services Authority. The Authority is considered a Municipal Emergency Service Authority as provided in the Emergency Services to Municipalities Act, 1988 PA57, MCL 124.601. The remaining formation and operating guidelines, etc. are detailed in the Authority's Articles of Incorporation and Bylaws and are maintained in the Authority's administrative offices. Each Township appoints three (3) members and the Village appoints one (1) member to the Board. The Chief oversees the day-to-day operations of the Authority.

The Authority has no stockholders and all monies received are to be used for certain specified purposes in accordance with the joint venture agreement between the constituent municipalities.

The Authority is intended to operate as much as possible from funds and income derived from operations. However, each township is responsible for remitting the portion of the emergency services property tax levy collected to the Authority. Other responsibilities including insurance coverage and procedures for termination of services are explicitly detailed in the joint venture agreement, bylaws, and articles of incorporation of the Authority.

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Ovid-Middlebury Emergency Services Authority. The Ovid-Middlebury Emergency Services Authority is considered a "joint venture" of the constituent municipalities.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Authority as a whole.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes taxes, interest, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Authority's individual major fund. Separate financial statements are provided for governmental funds and proprietary funds.

The major fund of the Authority is:

- a. The Operating (Special Revenue) Fund is the used to account for all financial resources to be used for fire protection services provided to each participating municipality.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF EMERGENCY SERVICES AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Authority before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, charges for services, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

The Authority reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Capital Assets

Capital assets include vehicles and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an initial individual cost of \$500 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF EMERGENCY SERVICES AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Vehicles	7- 20 years
Equipment	5-20 years

6. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

7. Property Taxes

The participating Townships levy and collect property taxes for the Board. As the Emergency Services tax is collected it is remitted by the Township Treasurers. At March 1 each year the Townships settle their delinquent taxes with their respective County Treasurers' and the unpaid real property tax is remitted to the Board by the County Treasurer in Clinton County and by the County Treasurer in Shiawassee County. Delinquent personal property taxes are retained by the Township Treasurers for subsequent collection. The Board is permitted to levy up to \$4 per \$1,000 of assessed valuation on property within the District, the portion of which is authorized above \$2 per \$1,000 may be levied for a period not to exceed 20 years. The property taxes levied December 1 are accrued as current tax receivable with the appropriate deferral and are budgeted as revenue in the subsequent year. For the year ended December 31, 2004, the Board levied for the 2003 levy 2.2020 mills, which was recognized as revenue during 2004 and 2.2020 mills for the 2004 levy which will be recognized as revenue in 2005.

8. Budgets and Budgetary Accounting

The Special Revenue (Operating) Fund budget shown in the financial statements was prepared on a basis not significantly different than the basis used to reflect actual results.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to January 1, the budget is legally adopted on a fund level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity must be approved by the Board.
- Formal budgetary integration is employed as a management control device during the year.
- The Board does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- Budgeted amounts are reported as originally adopted or amended by the Board during the year. Individual amendments were appropriately approved by the Board as required.

9. Accounting Change

As of January 1, 2004, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF EMERGENCY SERVICES AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Accounting Change - continued

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Authority's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include all applicable assets in the amount of \$456,600, which was previously reported in the General Fixed Assets Account Group.
- Long-term obligations reported on the statement of net assets include a capital lease payable of \$137,916, which was previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: CASH

Ovid-Middlebury Emergency Services Authority's deposits consists of a checking account, which is reported as cash on the Balance Sheet.

In accordance with Michigan Compiled Laws, the Ovid-Middlebury Emergency Services Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Ovid-Middlebury Emergency Services Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE B: CASH - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Ovid-Middlebury Emergency Services Authority are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Ovid-Middlebury Emergency Services Authority.

As of December 31, 2004, the carrying amount and bank balance for the checking account were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ <u>226,140</u>	\$ <u>233,537</u>

The bank balance as of December 31, 2004 was insured by the FDIC \$100,000. The amount of \$133,537 was uninsured and uncollateralized.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	<u>Restated Balance Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2004</u>
Governmental activities				
Equipment	\$ 152,901	\$ 21,650	\$ -	\$ 174,551
Vehicles	<u>559,848</u>	<u>1,456</u>	<u>-</u>	<u>561,304</u>
Totals at historical cost	712,749	23,106	-0-	735,855
Less accumulated depreciation for:				
Equipment	(57,292)	(11,729)	-	(69,021)
Vehicles	<u>(159,816)</u>	<u>(27,279)</u>	<u>-</u>	<u>(187,095)</u>
Total accumulated depreciation	<u>(217,108)</u>	<u>(39,008)</u>	<u>-0-</u>	<u>(256,116)</u>
Capital assets, net	\$ <u>495,641</u>	\$ <u>(15,902)</u>	\$ <u>-0-</u>	\$ <u>479,739</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Authority for the year ended December 31, 2004.

	<u>Balance Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2004</u>	<u>Amount due within one year</u>
Capital Lease	\$ <u>137,916</u>	\$ <u>-</u>	\$ <u>20,180</u>	\$ <u>117,736</u>	\$ <u>21,227</u>

Ovid-Middlebury Emergency Services Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt are presented below:

Capital Lease

The Authority has entered into a lease purchase agreement, which qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of future minimum lease payments as of the date of inception. The following is additional details regarding the lease.

The Authority has entered into a lease for the purchase of a fire truck and related equipment. The cost of the truck and related equipment under the lease purchase agreement amounted to \$263,493. Commitments under the lease agreement provide for minimum annual payments as follows:

	<u>Fire Truck</u>
2005	\$ 27,337
2006	27,337
2007	27,337
2008	27,337
2009	<u>27,337</u>
	136,685
Less amount representing interest	<u>(18,949)</u>
	<u>\$ 117,736</u>

NOTE E: RISK MANAGEMENT

The Authority is exposed to various risks of loss including accidental death, dismemberment, disability, medical expense benefit; errors and omissions; blanket accident; firefighter accident; and workers' compensation for which the Authority carries commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

Ovid-Middlebury Emergency Services Authority

Special Revenue Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental				
Townships and Village	\$ 33,000	\$ 33,000	\$ 33,950	\$ 950
Taxes	201,000	220,200	230,920	10,720
Charges for services	105,000	105,000	111,717	6,717
Interest	500	1,350	1,613	263
Other	500	13,907	20,044	6,137
TOTAL REVENUES	340,000	373,457	398,244	24,787
EXPENDITURES				
Current				
Salaries and wages	161,042	165,442	166,500	(1,058)
Fringe benefits	13,000	12,500	12,460	40
Continuing education	3,000	2,000	2,128	(128)
Contractual services	44,000	57,175	56,466	709
Supplies	14,700	16,423	11,574	4,849
Gas and oil	3,000	4,000	3,714	286
Telephone	3,000	3,000	2,949	51
Insurance	20,000	20,000	17,414	2,586
Repairs and maintenance	10,000	12,350	12,240	110
Uniforms	9,000	9,000	9,158	(158)
Other	3,600	16,709	14,588	2,121
Capital outlay	27,658	26,858	26,513	345
Debt service	28,000	28,000	27,337	663
TOTAL EXPENDITURES	340,000	373,457	363,041	10,416
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	35,203	35,203
Fund balance, beginning of year	157,861	157,861	157,861	-0-
Fund balance, end of year	<u>\$ 157,861</u>	<u>\$ 157,861</u>	<u>\$ 193,064</u>	<u>\$ 35,203</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

MANAGEMENT LETTER

To the members of the Ovid-Middlebury
Emergency Services Authority
Ovid, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Ovid-Middlebury Emergency Services Authority for the year ended December 31, 2004. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Authority's internal controls and our discussions with management.

1. The Authority should establish a capitalization threshold in order to track material assets purchased.

During the course of our audit, it was noted the Authority does not have a formal written capitalization threshold policy in place. This policy would set forth a dollar threshold for items purchased by the Authority, which would be considered material, long-lived assets that should be capitalized and depreciated.

We suggest the Authority adopt a capitalization threshold policy.

2. The Authority should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Authority may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

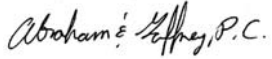
While this is a common occurrence in small organizations due to the limited number of employees, the Authority Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Authority review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Authority Board provide a greater review and supervision of employee functions and procedures.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated April 22, 2005.

This report is intended solely for the use of management and the Board of Trustees of the Ovid-Middlebury Emergency Services Authority and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

A handwritten signature in cursive script that reads "Abraham & Gaffney, P.C.".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 22, 2005